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RR RUEHRN  
DE RUEHMD #2045/01 3021433  
ZNR UUUUU ZZH  
R 291433Z OCT 07  
FM AMEMBASSY MADRID  
TO RUEHC/SECSTATE WASHDC 3709  
INFO RUEHSS/OECD POSTS COLLECTIVE  
RUEHLA/AMCONSUL BARCELONA 3148

UNCLAS SECTION 01 OF 04 MADRID 002045

SIPDIS

SENSITIVE  
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EUR/WE, EEB/efd/OMA

E.O. 12958: N/A  
TAGS: [EAIR](#) [ECON](#) [EFIN](#) [EIND](#) [ELAB](#) [KIPR](#) [SP](#) [EINV](#)  
SUBJECT: MADRID WEEKLY ECON/AG/COMMERCIAL UPDATE REPORT -  
OCTOBER 22-26

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#### USTR DIRECTOR FOR EU AFFAIRS VISIT

¶1. (SBU) In meeting with Ministry of Industry, Tourism and Trade Deputy Director for EU Trade Policy, Inigo Febrel, USTR Director for EU Affairs, David Weiner emphasized President Bush's personal engagement on Doha matters, and that the USG does see a possibility for a successful conclusion of the Round. Febrel and accompanying staff agreed that with all the emphasis on agricultural and non-agricultural market access (NAMA), services were being somewhat neglected, and that this had to change. Weiner noted that the U.S. remained very interested in internet-related IPR matters. He met with Ministry of Culture Subdirector General for Intellectual Property, Pedro Colmenares, and repeated the message. Colmenares was pessimistic about making progress on internet-related piracy issues prior to Spain's general election, which is expected to be held in March 2008.

¶2. (U) Separately, Weiner discussed import safety issues in meetings with Ministry of Health Director General for Consumer Affairs Angeles M. Heras Caballero, Deputy Director for Quality Carlos Arnaiz and Ministry of Industry, Tourism and Trade Deputy Director for Coordination and Bilateral Trade Relations with the EU, Cristina Teijelo Casanova. Weiner mentioned that the USG is interested in a dialogue with the EU and with Member States on these issues. Heras said that the GOS would be announcing a series of import safety measures on October 26, focusing especially on better coordination between the Ministry of Health and Spain's customs authorities.

FT SPECIAL REPORT ON ECONOMIC PROSPECTS

¶3. (U) The lead article in the Financial Times' recently published a special report on Spain titled "Economic Prospects Looking Less Rosy." The report is generally consistent with what most analysts believe here in Spain. However, the FT notes that despite financial market turbulence, neither the real economy nor the banking sector has "imploded" and accepts the Bank of Spain's and other analysts' explanation as to why. First, because they were making so much money in Spain, Spanish banks did not invest significantly in off-balance sheet vehicles ("conduits") to invest in high-risk American mortgages. Second, Spanish banks are not facing liquidity problems. In fact, in recent weeks Spanish banks have been lenders in short-term money markets, suggesting an excess, rather than lack, of liquidity. The banks' borrowing has mostly been long-term.

¶4. (SBU) The FT mentions that construction is likely to experience a contraction. Should housing starts begin to decline from 800,000 a year to a more "sustainable" 500,000 a year, that could result in 600,000 more unemployed people. This could be offset somewhat by higher government spending on infrastructure. One market concern is the future of the respected Minister of Finance, Pedro Solbes. The conventional wisdom is that Solbes will retire following the March, 2008 general elections, even if the socialists win. This would undermine business confidence as he is seen as pro-business and has the power and influence to control spending. (Comment: The Spanish government, and many businessmen as well, consider the FT's reporting on Spain to be overly negative. Influential Spaniards are sensitive to FT reporting because the publication is a credible publication for Europe's business and political elite. Overall, however, government and business should be modestly pleased with the overall tone of the report. It contains fairly positive articles on Spanish companies, entrepreneurs, and R&D spending while warning about dampening consumer demand and construction activity. The FT writes that

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Spaniards are "determined to prove, once again, that 'Spain is different.' Maybe this time it is." That's a somewhat upbeat assessment for the FT.) (FT, 10/24/07)

#### BIG BANKS APPEAR UNFAZED BY MARKET TURBULENCE

¶5. (SBU) Coinciding with the FT special report, the International Herald Tribune published an article with the title: "Big Spanish banks appear unfazed by market turbulence." This article tracks with what the FT says about the Spanish banking sector with one addition: that Spanish investments in Latin America could offset weakness at home. (Comment: The IHT and FT articles are consistent with what our banking and other contacts tell us. Spanish government contacts and business people have been adamant that Spain will continue to do well, albeit growing somewhat more slowly than during the last ten years. However, given all the insistence from both government and business, the smallest sign of a problem, could conceivably lead to disproportionate reactions from investors.) (IHT, 10/24/07)

#### BASQUE SAVINGS BANKS FINED FOR ANTI-COMPETITIVE PRACTICES

¶6. (U) Spain's National Open Competition Commission (CNC) has imposed fines totaling 24 million euros on four savings banks in the Basque and Navarra region that it says conspired for 15 years to fix prices and share markets. According to the investigation, from 1990-2005 the Navarra Savings Bank (Caja Navarra) and Basque savings banks BBK, Kutxa, and Caja Vita never opened branches in each other's markets although they successfully pursued expansions in other close locations in the region. The investigation results also indicate that in addition to price fixing practices, the savings banks colluded by sharing operational information that would allow the banks to block out other competition. Drawing attention to the strong market expansion that Spanish savings

institutions have enjoyed over the past several years (to the detriment of some banks), sources close to the CNC suggest that the fines will serve as a warning to other savings banks that may be engaging in anti-competitive practices. These fines are second only to the 38 million euro fine the CNC levied against Iberdrola in March 2007.

#### OPPOSITION LEADER'S CLIMATE CHANGE COMMENT DRAWS FIRE DURING GORE VISIT

¶17. (U) Popular Party leader and expected presidential candidate Mariano Rajoy has been widely criticized for a skeptical comment about climate change that coincided with a well-publicized visit of former Vice President Gore. In response to a question at an October 22 conference, Rajoy responded that "we have to pay a lot of attention to this matter, but we can not turn it into a big global problem." He also referenced his cousin, a professor of theoretical physics, with whom he has discussed the difficulties in predicting future climate conditions. Rajoy said that, if "no one can guarantee what the weather will be like tomorrow...how can anyone claim to know what will happen to the world in 300 years' time?" Rajoy's comments drew criticism from the GoS environment and interior ministers and several environmental NGOs, and even King Juan Carlos cited climate change as a pressing challenge for the world. Other officials of Rajoy's party distanced themselves from his comment.

¶18. (U) Former vice president Gore, who was also participating in the conference, did not directly cite Rajoy by name but noted that "politicians are also a renewable resource." Gore was in Spain this week to receive the prestigious Prince of Asturias Award for International Cooperation for his climate change efforts. During his remarks at the conference, Gore also said that Spain is one of the most vulnerable countries in Europe to climate change citing an increase over the past 70 years in intervals between rainfall, which leads to more common droughts. (All Media, 10/24/07)

#### RAILWAY WOES PLAGUE BARCELONA COMMUTERS

¶19. (U) Landslides and infrastructure damage caused by efforts to finish the last segments of the long-delayed high speed AVE railway line from Madrid to Barcelona have resulted in the closure of three of Barcelona's six commuter rail lines, affecting an estimated 160,000 commuters. Despite stopgap measures to deploy 220 buses to temporarily take the place of the out-of-service rail lines, local government officials and residents are outraged by the latest in a series of Barcelona infrastructure mishaps ongoing since the summer. Barcelona politicians have called for an investigation of these

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problems, heavily criticizing local, regional, and federal government representatives and calling for the resignation of national Minister of Public Works and Infrastructure Magdalena Alvarez. Administration officials are expected to back away from their long-standing insistence that the Barcelona-Madrid AVE line will be completed on December 21. Political analysts suggest that the railway mess and last summer's blackouts will reduce support in the March national elections for the Catalan socialist party, on whose members the ruling socialist party relies to help it reach a majority in the national legislature.

#### TEXAS GROUP VISITS FOR HIGH-SPEED RAIL DISCUSSIONS

¶10. (U) At an October 25 reception for a visiting Texas High Speed Rail and Transport Corporation (THSRCTC) delegation, the Ambassador gave remarks highlighting the strong ties between the US and Spanish business communities and praising the increasing level of cooperation between the two countries, including potentially in the high-speed rail sector. The THSRCTC came to Spain for final discussions with the Spanish firm Pointrec on a tender for construction of a

high-speed rail system in Texas' "T-bone corridor." The group also visited various Spanish governmental entities involved in Spain's high speed rail network.

#### ZAPATERO REPEATS 2004 PROMISE TO INCREASE AID BUDGET DRAMATICALLY

¶11. (U) At a government-sponsored conference on foreign aid attended by econoff, President Zapatero announced that, if he is reelected, Spain would increase its development aid budget to 0.7 percent of GDP by 2012, which he said would make Spain the first of the world's ten richest countries to do so. Current Spanish aid spending is 0.4 percent of GDP; Zapatero had promised in his 2004 campaign to reach the 0.7 percent level by 2012. Without providing many details, Zapatero did say that Spanish foreign assistance would, among other objectives, be used to fight global warming. (Econoff, All Media)

#### MADRID WORLD'S FIFTH LARGEST "ECUADORIAN" CITY

¶12. (U) With a registered population of 155,000 Ecuadorians, Madrid ranks fifth in the world after Guayaquil, Quito, Cuenca (Ecuador) and New York City. Madrid Autonomous Community President, Esperanza Aguirre announced the recent census results as she inaugurated the 2nd Integration and Participation Center for Hispanic - Ecuadorian Immigrants in the Madrid city district of Arganzuela. The Ecuadorians are the second most numerous immigrant population of the region behind the Romanians. Aguirre went on to say that Ecuador is a "priority" country for the Madrid regional government. (20 minutos)

#### ANDORRAN ACTION ON MONEY LAUNDERING IMPRESSIVE, ECONOMIC REFORMS MODEST

¶13. (SBU) EconOff visited Andorra October 15-16. The Director of the Unit for the Prevention of Money Laundering, Jordi Pons Lluelles (a 2006 International Visitor grantee) explained that he attends Financial Action Task Force (FATF) meetings four times a year and Moneyvall meetings as well. He emphasized that while there are numbered accounts in Andorra's five banks, they are not "secret" in the sense that the banks know the identities of the numbered account holders, and that his Unit can obtain identifying information rapidly. Pons noted that he cooperates regularly with the Madrid-based U.S. Embassy Legatt and other law enforcement officers at the Embassy. He said that recently Andorra had frozen the account of a suspected narcotrafficker containing 4 million euros.

¶14. (SBU) With respect to general economic reform, Andorran officials emphasize a new planned Investment Law that would open up the economy to foreign investment in areas Andorrans are not active in. Energy and telecoms are excluded from the law. Moreover, in the all-important tourism sector (responsible for more than 80% of Andorra's GDP), foreigners would still only be able to own 49% of a business. Perhaps most importantly, there are significant restrictions on the ability of immigrants to open and own businesses; in 2006, roughly 52,000 out of Andorra's population of almost 82,000 were characterized as immigrants. (Comment: Andorra seems to have gotten religion on money laundering, if for no other reason than that closer economic ties with the EU depend in part on eliminating it's reputation as a tax haven. However, other economic reforms - mostly yet to be enacted - are on

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the timid side, perhaps because the country remains rich, and there is no pressing need yet for more radical reform.)

#### SPAIN SUPPORTS EC APPROVAL OF FOUR BIOTECH CROPS

¶15. (U) The European Commission (EC) took another very small step forward in the European Union's exceptionally slow biotechnology review process on October 24, 2007. After

years on the approval pipeline, including the time necessary for the European Food Safety Authority to review and agree with U.S. regulators regarding the safety of the four biotechnology varieties (three corn and one sugar beet), the EC authorized their importation into Europe and use in feed, food, and processing. U.S. corn exporters remain disappointed with the approvals process, noting that the October 24 vote does very little to enhance U.S. access to the European market. Essentially, European grain traders can't import U.S. corn, because the European bureaucracy has not yet reviewed most of the U.S. - grown biotechnology varieties. As part of the approvals process, EU Member States are asked by the EC to vote on new biotechnology varieties. In the case of the above mentioned varieties, the Spanish representative to the food and feed committee was reported to have voted in favor, in contrast to the French, Austrians, Italians, etc. The Spanish reportedly conducted a scientific review of the information and voted in favor of the science. (FAS)

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